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TAX STRUCTURE IN BRITAIN

This paper contains a summary of Britain's tax structure. Other information papers on taxation, available free of charge, are:

"United Kingdom Income Tax" (I.D. 729)
"The Double Taxation Conventions" (I.D. 727)
"Death Duties in Britain" (I.D. 746)
"Rates of Duty and Purchase Tax" (I.D. 840)

<u>CONTENTS</u>	<u>Page</u>
I. Tax Structure	1
II. Inland Revenue Duties	3
III. Customs and Excise Duties	6
IV. Other Central Government Taxes	6
V. Local Taxes	6
APPENDIX	6
SHORT BIBLIOGRAPHY	7

I. TAX STRUCTURE

Taxation in Britain is levied at two levels, national and local. These correspond to federal and local taxes in the United States. About 90% of all taxes levied and collected in Britain are for the central government. There are no taxes in Britain corresponding to those levied by the separate States in the United States.

Central government taxation in Britain comprises direct and indirect taxation, and together with local taxation absorbs about 40% of Britain's national income. This figure in 1938 was about 26%. Indirect taxation (on beer and tobacco, for instance, and the purchase tax) is of great importance in Britain providing about 45 per cent of total Central Government tax receipts.

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Approved For Release 2000/08/25 : CIA-RDP70-00241R000200090024-0

- 2 -

I.D. 1175

The relative importance of the different taxes in Britain is shown in Table I which gives itemized exchequer receipts.

Table I

	<u>REVENUE (Exchequer Receipts)</u>		<u>£ million</u>	
	<u>1913-14</u>	<u>1954-55</u>	<u>1955-56</u> <u>Estimate</u>	<u>1955-56</u> <u>%</u>
<u>INLAND REVENUE</u>				
Income Tax	43.9	1,893.0	1,877	39.9
Surtax	3.3	134.7	136	2.9
Estate, etc., Duties	27.4	187.9	185	3.9
Stamp Duties	10.0	75.1	74	1.6
Profit taxes	--	172.8	180	3.8
Excess Profits Levy	--	76.5	25	0.5
Other Inland Revenue	3.4	1.3	1	--
<u>TOTAL INLAND REVENUE</u>	88.0	2,541.3	2,478	52.6
<u>CUSTOMS</u>	35.5	1,100.0	1,132	24.0
<u>EXCISE</u>	39.5	771.6	796	17.0
<u>MOTOR VEHICLE DUTIES</u>	--	79.0	80	1.7
<u>TOTAL TAX REVENUE</u>	163.0	4,491.9	4,486	95.3
<u>NON-TAX REVENUE</u>	10.6	246.0	224	4.7
<u>TOTAL ORDINARY REVENUE</u>	173.6	4,737.9	4,710	100.0

*Includes Excess Profits Tax

For source, see Appendix.

Direct Taxes: The receipts from the individual direct taxes are given under "Inland Revenue" in Table I.

Indirect Taxes: Details of the yields from individual indirect taxes are given in the following table.

Table II

CUSTOMS AND EXCISE DUTIES

£ million

	<u>Net Receipts</u>		<u>Estimate</u>	
	<u>1913-14</u>	<u>1954-55 *</u>	<u>1955-56</u>	<u>%</u>
Spirits	24.0	116.4	120.0	6.2
Beer	13.7	251.0	245.0	12.7
Tobacco	18.3	650.2	660.0	34.2
Oil, etc.	0.8	304.7	320.0	16.6
Purchase tax	--	341.8	367.8	19.1
Betting	--	28.9	28.5	1.5
Entertainment	--	41.3	41.0	2.1
Import Duties Act, 1932	--	62.3	70.0	3.7
Other items	18.4	75.1	75.5	3.9
Total Duties	75.2	1,871.7	1,927.8	100.0

*Provisional.

For source, see Appendix.

II. INLAND REVENUE DUTIESIncome Taxes on Individuals

Individuals pay income tax and surtax.

The rate of income tax is expressed as so many shillings and pence in the £. The current rate is 8s.6d in the £, i.e. 42 1/2%. This is known as the standard rate.

In calculating income tax essential working expenses are first deducted from gross salary. Then various tax free personal or dependants' allowances (or exemptions) - e.g. the single person's or married person's allowance, children's allowance, etc., are deducted, including a percentage of the earned income, as distinct from the income from investment. The remaining income, known as taxable income, is assessed at different rates per slice of income, ranging from 11 1/4% to 42 1/2%.

Married couples living together are normally taxed jointly, but separate assessments may be requested specially. There is no saving by being assessed separately.

There are special concessions for old people, and for those living on a small investment income.

A single person with an annual earned income of £500 pays an effective rate of tax of 11%; on £1,000, 21%; on £5,000, 46 1/2%; and on £100,000, 89%. A married man with three children pays no tax at all on an annual earned income of £500; 5% on £1,000; 43% on £5,000; and 89% on £100,000.

- 4 -

I.D. 1175

Since 1944-45 all wages and salary earners have had income tax deducted from their earnings under a Pay As You Earn scheme (P.A.Y.E.) (see Table IV). Surtax is still paid directly to the government.

Surtax is payable on gross income over £2,000 per annum, and is assessed on the separate slices of income over that amount: e.g. on the slice of income between £2,001 and £2,500 the surtax is at two shillings in the £, or 10%. The highest rate is on that slice of income above £15,000 when the surtax is 50%. Thus on this particular slice of income the combined taxes (income tax and surtax) are 92 1/2%. A high income recipient thus has several slices of income assessed at various rates (see Table V for details of surtax incomes).

The incidence of personal taxation is shown in Table III.

Table III

DISTRIBUTION OF PERSONAL INCOME

<u>Range of net income</u> <u>after tax</u>	<u>Number of Incomes</u>	
	<u>1952-53</u>	<u>Effective</u> <u>Tax Rate % *</u>
£155 - £250	3,240,000	1.5
£250 - £500	10,530,000	5.0
£500 - £750	4,604,000	6.7
£750 - £1,000	807,000	13.4
£1,000 - £2,000	507,450	26.9
£2,000 - £4,000	110,180	55.4
£4,000 - £6,000	1,335	88.0
Over - £6,000	35	95.8
	19,800,000	11.5

It will be seen that only 35 people in 1952-53 had a net income after tax of over £6,000 (£16,800).

For source, see Appendix.

*Calculated by B.I.S.

Table IV

INCOME TAX UNDER P.A.Y.E. (Schedule E)

	<u>No. of Schemes</u>	<u>No. of Employees</u>	<u>Total</u>	<u>Total tax</u>
	(thousands)	(millions)	<u>Remuneration</u>	<u>deducted</u>
			(£ mn.)	(£ mn.)
1944-1945 *	640	17.0	4,027	565.7
1951-1952	890	19.7	7,810	661.6
1952-1953	880	19.6	8,375	546.8

* First year of operation

For source, see Appendix.

Table VINCOMES SUBJECT TO SURTAX*

	<u>No. of persons assessed</u>	<u>Total income assessed (£ mn.)</u>	<u>Net Tax assessed (£ mn.)</u>
1913-14	14,008	175.6	3.2
1951-52	247,140	1,029.1	126.4
1952-53	241,228	1,007.6	123.0

*Lower income limit was £5,000 in 1913-14 and £2,000 in the other two years. The tax was called super-tax in 1913-14. For source, see Appendix.

Income Taxes on Corporations

Corporations are liable to two taxes: income tax and profits tax on distributed and undistributed earnings. Income tax is assessed at the standard rate, 42 1/2%; the tax on distributed profits is 22 1/2% and on undistributed profits 2 1/2%. The profits taxes are not deductible as expenses for purposes of calculating income tax.

In effect, therefore, the corporation taxes thus currently range from 45% to 59.2% according to the amount of earnings distributed (For calculations, see U.K. Income Tax" ID 729.)

Corporations deduct income tax at the standard rate when paying dividends and interest, this income tax being regarded as having been paid by the recipient, thus entitling him to this credit, or, in appropriate cases, to a refund. The corporations do not hand over the amount deducted to the Inland Revenue unless the dividend payment was made out of profits which had not been taxed.

Death Duties (Estate Duty)

There is now only one inheritance tax - Death Duties - in force in Britain. Legacy Duty and Succession Duty were repealed by the Finance Act 1949.

If the net capital value of the estate is £3,000 or less, no estate duty is payable. On estates above £3,000 the rate of duty ranges from 1% on estates valued at £3,001 - £4,000, to 80% on estates worth above £1,000,000. The rates of tax are graduated according to the value of the estate, the tax being calculated at so much per cent on the total value of the estate, not different rates on different slices.

Stamp Duties

These are payable on many common transactions, e.g. on checks, receipts for £2 or more, agreements, and transfers of property.

Other Duties

These comprise such taxes as Land tax, mineral rights duty. They yield comparatively small amounts.

III. CUSTOMS AND EXCISE DUTIES

These levies form a most important part of total tax receipts in Britain. (See Table II) Of the total cost of cigarettes, for instance, about 80 per cent is tax. Most of these duties have been in force for many years.

Purchase Tax (a form of Sales tax) is an exception to this general rule, this tax having been in force since October 21st, 1940. It is a tax levied at the wholesale level, on the wholesale price, and then passed on to the retailers and consumers. Many articles such as food, books, fuel, etc., are exempt from purchase tax, but rates range up to 75%, e.g. on fur coats.

IV. OTHER CENTRAL GOVERNMENT TAXES

The tax on motor vehicles is in a separate category, coming under neither the Inland Revenue nor the Customs and Excise. It is central government tax collected at a local level.

The weekly payment for National Insurance is sometimes regarded as a tax, although it is in effect an insurance premium.

V. LOCAL TAXES

Local real estate taxes in Britain are commonly known as "rates". They are assessed on the rental value of occupied property (after expenses of upkeep), which latter is multiplied by the rate in the £ (e.g. 17 shillings in the £, equal to 85%) to produce the tax payable.

Small amounts are also collected by local municipalities from license duties, fees, tolls, etc.

The revenue of local authorities from rates in 1954 was £460 million.

APPENDIX SOURCE MATERIAL

Tables I and II	"The Economist" (London), Records and Statistics Supplement, April 25th, 1953, page 300, and Financial Statement (1955-56).
Table III	Annual Report of the Inland Revenue, 1953-54. (Cmd. 9351, page 71)
Table IV	As for Table III, page 69
Table V	As for Table III, page 80, and "The Economist" Supplement (as for Table I) page 299.

SHORT BIBLIOGRAPHYOfficial Documents

The two main sources of information on tax collection in Britain are the annual reports of the Commissioners of Inland Revenue and the Commissioners of the Customs and Excise. The latest reports available in both cases are those for the year ended March 31st, 1954:

Inland Revenue:	Cmd. 9351	\$1.25	(135 pages)
Customs and Excise:	Cmd. 9358	\$1.60	(195 pages)

Information on national finances is given in four White Papers published annually and entitled:

- 1) "Financial Statement"
- 2) "Finance Accounts of the United Kingdom"
- 3) "National Debt"
- 4) "Public Income and Expenditure".

Useful information on Customs and Excise duties in general and on the Purchase Tax in particular is given in the

"Report of the Committee on Tax-Paid Stocks", Cmd. 8784; 45/-; 58 pages.

All these official documents may be borrowed from our library on the inter-library loan system (application forms are available from the librarian), or purchased from our Sales Section, or referred to in our Reading Room at Room 4424, R.C.A. Building, 30 Rockefeller Plaza, New York 20, N.Y. It is open from 9 a.m. to 6 p.m. Monday through Friday.

Books

A good account of the British tax system is given in:

"The Burden of British Taxation" by G. Findlay Shirras and L. Rostas,
(Cambridge University Press, and the MacMillan Co.,
1943, 240 pages).

This book is available both on library loan and for reference in our Library.

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